

# Micro Reform in the Australian Labour Market: Implications for Productivity and Growth

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## 1. Introduction

The issues being tackled by this Conference are perennial in economics and are at the heart of the discipline. Growth and productivity were the central concerns of Adam Smith's inquiry into the nature and causes of the wealth of nations. There has been phenomenal growth in the wealth of nations since 1776, and also in economic theory, but the enduring insights prevail. The key determinants of growth, both absolutely and relative to other nations, include physical resource endowments, social and political institutions, the distribution of income, the skills of the population, the extent of the market, social and physical infrastructure, generation/accumulation of sufficient investable resources, and technological innovation. Some (though not all) of these will be affected by microeconomic reform, but all of them affect the growth rates of employment, output and prices.

The next section of this paper traces the scope of micro reform in Australian labour markets over the past dozen years, and discusses in broad terms, the nexus between Australia's wages system and Australian productivity growth. The third section provides an overview of enterprise bargaining agreements reached in Australia in the 1990s. It instances several examples of agreements reached through enterprise bargaining, highlighting the inclusion of performance indicators and benchmarking, and the introduction of new work systems. A final section discusses Accord Mark VIII and prospects for Australian competitiveness in the years ahead.

## 2. Productivity and Micro Reform in the Australian Labour Market: Past Dozen Years

There is a view, rooted in neoclassical economic theory, that labour market *reform* is co-extensive with labour market *deregulation*. This view underpins the calls by some local commentators for abolition of the award system (which sets minimum wages and conditions of employment in Australia). The call is for a 'freeing up' of regulation in general, and relative wages in particular, to remove 'impediments' to the signalling function of relative wages in allocating scarce labour resources.

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There has been a long and thorough international search for evidence of this allocative role of wage relativities, but with staggeringly little success. This has generated a burgeoning theoretical literature (search theory, bargaining theory, human capital theory, implicit contract theory, Reddaway's 'job opportunities' theory, segmented markets, efficiency wages, ...) in a remarkable process of secondary elaboration on the orthodox simple market model.

The process of change described here, and embraced by Australia's union movement, does not draw at all on the orthodox view. The Accord has directly targeted macroeconomic aggregates – originally the prospective annual aggregate wage outcome, more recently Australia's relative inflation rate, and always employment growth – and also directly promoted reform and competitiveness at the micro level. Whilst maintaining the integrity and relevance of legal minimum conditions and rates of pay, the Accord has embraced the goals of efficiency, flexibility and productive performance in Australian enterprises. The union movement has been and remains party to the most thorough-going overhaul of award structures and provisions in the history of our arbitration system. Five major changes have been undertaken, or are underway:

- coordination of wages policy with other arms of policy;
- award restructuring;
- enterprise bargaining;
- single bargaining units; and
- social change.

These will be discussed in turn.

*First*, prior to 1983, the future growth of wages in Australia was a major uncertainty facing every business. Shut out of the economic policy process, unions simply bargained for wages as best they could, each in the interests of their own members. Wages growth was volatile and pro-cyclical, accelerating in the booms and slowing in the busts. There was no connection between wages policy and other policy instruments.

In rejecting 'fight inflation first' monetarism (which had been tried and had failed), the original Accord spoke of the need to integrate and harmonise all arms of policy.<sup>1</sup> Since its inception in 1983, wages policy has been integrated with economic policy generally. As a result, the growth of wages has been moderate and predictable, which is what matters for business, for investors contemplating major new investments.<sup>2</sup>

This wage restraint,<sup>3</sup> sustained for more than 12 years, has seen Australia top the OECD league tables for job growth (notwithstanding the recession). It has delivered

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1. Statement of Accord between the ALP and ACTU, Regarding Economic Policy, February 1983.
  2. See Chapman and Gruen (1991) for an early overview of the macro effects of the Accord on wages growth and industrial disputation.
  3. A closely related change of fundamental importance has been the introduction of award-based superannuation. The SGC schedule of minimum employer obligations ensures that the labour-cost impact of the scheme is known with certainty years in advance. Accord VIII establishes similar employee obligations well in advance of their falling due. The superannuation arrangements target long-term macro-management concerns (retirement incomes, national saving and national infrastructure) with implementation carried substantially by the award system and harmonised with wages policy settings, resulting in regular, modest and predictable increases in nominal labour costs over an extended stretch of years.

Australia its lowest rates of inflation in many decades. And it has been achieved – uniquely in Australia – in such a way that the living standards of the weakest and lowest paid groups of workers during the 1980s had the greatest degree of protection. Flat dollar national wage increases, plus minimum rate adjustments under award restructuring, delivered greater protection to lower-paid groups than to the bulk of workers in the unions’ heartland in the middle-income ranges. Additional support for low-paid workers with family responsibilities was secured through ‘social wage’ negotiations with government.

Real wages declined during the 1980s, but have risen modestly in the early 1990s as inflation fell rapidly. Throughout, profits have improved and the profit share remains at historic highs. Associated with this unparalleled wage restraint through the Accord has been a sustained decline in days lost due to industrial disputation. On average over the past dozen years, the time lost due to industrial disputes is more than 60 per cent lower than in the preceding decade.

*Second*, award restructuring has totally reshaped the legal framework which governs attitudes to work and training and the way in which work is done in Australian workplaces.

The award system evolved largely by accident over 80 years in Australia, but by the mid 1980s had become out of tune with modern approaches to work organisation and competitive efficiency. The realisation that companies are more flexible and competitive when emphasis is placed on team performance rather than individual output, when skills and competence are emphasised, when authority and responsibility are devolved to workers through flat management structures, and that quality earns a premium on prices, is a truth from the modern world. Award restructuring builds these principles into the institutional framework which sets the rules in Australian workplaces. The obsolete award provisions – which encouraged demarcation and discouraged skill formation and hindered responsiveness and flexibility – are either already gone or well on the way out.

In each industry the restructured awards which continue to set minimum standards in employment contain only a few, broadly-defined job classifications, linked by skill levels so as to provide a career path along which workers may progress throughout their working life by acquiring additional skills and competence. Award restructuring has reduced the scope for pettifogging demarcation, promoted multi-skilling and functional flexibility on the job, differentiated between award types, and established key minimum wage relationships in such a way as to curtail the leapfrogging between awards that had contributed to the wage ‘explosions’ of the late 1960s, mid 1970s and early 1980s.<sup>4</sup> This has been a process of regulatory reform, not de-regulation *simpliciter*.<sup>5</sup>

Award restructuring facilitates change. It has enabled and assisted the change process to occur and grow, but responsibility for actually changing things at any place of work is ultimately a matter for the workers and management there. Subject to the broad principles and minimum standards set by restructured awards, the precise details of change to take place in any workplace is best addressed by the people directly involved.

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4. See Borland, Chapman and Rimmer (1992) for a more extensive discussion of the nature and effect of these changes.

5. See TUAC/OECD (1995) for a discussion of these issues in an international context.

Governments and unions and Industrial Tribunals can help and advise and assist, but enterprises (or companies) must actually do it.

So enterprise bargaining, the *third* area of fundamental reform in Australian labour markets was the logical next step in the process of change. Australia's union movement embraced enterprise bargaining in pursuit of productive *efficiency* and also (though this is not widely recognised outside of union circles) for reasons of *equity*.

If workplace change is widely perceived to be fair, it is more likely to be sustained over time, and not rolled back. Workers want improved living standards for themselves, their families and children, and an efficient, competitive economy is essential for a small, open nation to achieve these goals into the next century. Both award restructuring and enterprise bargaining are centrally about the pursuit of efficiency. It was the unionised sector which shouldered the major share of change under award restructuring, including acceptance of new work classifications, performance of a wider range of duties, undertaking training, and accepting greater accountability for work done.

However, the fact is that the weight of wage restraint in the 1983-90 period was also carried by the unionised sector of the workforce, overwhelmingly located in the middle-income ranges. High-income groups exercised no restraint, especially during the late 1980s boom. ('We exercised the restraint, they took the equity', as one wag put it.)

As inflation fell in the 1990s, the rate of erosion of living standards declined, and the opportunity emerged for the unionised sector to achieve some recovery in real living standards through enterprise bargaining for the same workers, actually required to implement the changes arising from microeconomic reform in the Australian labour market.

In Autumn 1991, writing on the theme of cracking Australia's 'high inflation mindset', the ACTU said:

'The productivity pay-off from award restructuring will show up in the national aggregates over the course of the nineties. Reforms to the wages system, when complete, will offer a coherent, stable framework for wage policy replete with a capacity for genuine workplace focus. The trade union movement will seek to protect workers' living standards, knowing that task is most effectively done in an environment of low inflation' (ACTU 1991, pp. 24-25).

The productivity performance of recent years is consistent with that prediction, and for our part we expect Australian productivity growth rates, as measured by the national accounts, to remain above the historical average throughout the second half of the decade. Whether this expectation is met will depend crucially on what happens to new investment spending in the next few years.

Today (as at March 1995) there are (in the Federal jurisdiction) some 4,200 separate agreements (covering around 1.4 million workers) operating across all sections of Australian industry, and the number rises daily. The nature of these agreements is as diverse as the companies and industries they cover. Some agreements have a term of six months, some 12 months, some two years or longer. The average duration is 17 months. Many of the longer-term agreements are 'closed' in the sense that they include allowance for any national-wage or safety-net increase which may occur during their currency. In some industries a 'framework' agreement has been reached by the employers and unions concerned, with company-specific negotiations taking place within that framework. Agreements exist in the public and private sector, in large and

small companies. They exist across all sectors of industry and typically embrace details of changes in work arrangements and work performance as well as rates of pay. Overwhelmingly, agreements are conducted by single bargaining units (SBUs) representing workers at each place of work, which is a major efficiency gain in its own right.

The development of SBUs is related to the *fourth* major aspect of Australia's labour-market revolution. This is the thorough restructuring of the union movement itself.

For years, commentators have pointed to the existence of a multiplicity of craft-based unions in Australian workplaces identifying the resultant inefficiency of bargaining and promotion of demarcation as a major flaw in our labour-market structures. In the mid 1980s the ACTU had more than 150 affiliated unions, with three-quarters of unions accounting for around 20 per cent of union members. Today around 98 per cent of union members in Australia are covered by just 21 unions/union groupings organised along industry lines. Together with continued operation of single bargaining units, this will mean increasingly that each employer will have only one set of negotiations to conduct in order to reach an agreement covering all its operations. For workers, it heralds more efficient and effective delivery of a wider range of relevant union services.

There is no other example world-wide of a union movement restructuring itself in this way in peace time. In less than a decade, Australia's union movement will have transformed itself into a more effective, democratic organisation. It means less power and authority for the ACTU with more responsibility falling on the unions which directly represent working people.

*Finally*, each of the foregoing dimensions to Australia's continuing labour-market revolution has taken place against a backdrop of incessant social change. The participation rate for women has risen steadily here as in other countries, while that for men has declined a little. The incidence of part-time work has also grown rapidly. Private-sector employment has risen faster than in any other country, but public-sector employment has been flat or declined. More teenagers are staying longer at school; fewer work full time but many more work part time. These developments are common to most other industrialised countries, but are more pronounced in Australia because of our high rates of population growth.

In no way can these changes in the structure of our labour markets be attributed to the award system or the industrial tribunals, because award provisions also apply to part-time work and employment of young people and women, and the developments are being felt in countries without similar social institutions.

The union movement championed award restructuring and embraced enterprise bargaining with a view to securing an open, competitive economy, capable of sustaining first-world living standards into the next century. We have been party to the restructuring undertaken by corporate Australia in the early 1990s. One direct *consequence* of enterprise bargaining, pursuant to an efficiency agenda in Australia, will be not only greater efficiency in production and improved competitiveness in goods and services markets, but also 'a thousand microeconomic price adjustments' in the structure of *actual* wage relativities (though not of award minima). The direction of causation involved is the opposite of that assumed by orthodox economic theory, which posits

flexibility in wage relativities leading to greater allocative efficiency in labour markets (as scarce labour supplies are bid to where they will be most profitably employed and receive the value of 'their' marginal product) and thus greater efficiency and competitiveness in the macroeconomy.<sup>6</sup>

Before outlining key features of recent enterprise bargaining, three things should be stressed. First, collective bargaining has a long history in Australia's manufacturing industry. Even in periods of centralised wage fixation, bargaining at the enterprise level over a range of issues has featured prominently.

Second, we support the change agenda in all sections of the economy, not simply in the market sector. To maintain solidarity, social cohesion and credibility, there can be no double standard in wages/incomes policy. In the private sector, particularly in manufacturing, productivity-related pay systems are ultimately tested in the market and the wages bill is paid by the firm. In the public sector, there is overwhelmingly no market test and the wages bill is met from consolidated government revenue.<sup>7</sup> Simplistic advocacy of 'productivity-based wage rules' provides no guide for such groups and safety-net wage adjustments only would soon see disaffection wreak havoc with the public services they provide. Consequently, under Accords Mark VII and VIII the Federal Labor government as employer has negotiated agreements covering its own employees. These agreements provide for service-wide, fair salary adjustments and the continuing implementation of change in public sector employment, with agency-specific adjustments also available, subject to certain criteria.

Third, productive performance at the enterprise level is an amalgam of investment in equipment and technology, management competence, workplace culture, and a diverse range of other factors. It follows that individually based piece-work arrangements are of limited utility in any adequate wages system. Group bonus schemes may have some greater merit depending on how they are structured.

What incentive is there for workers at any particular establishment to engage in enterprise bargaining? There is, of course, the altruistic reason that 'we are doing it for our kids', and this motivation is not to be denied. Nor should the concern for job security, to ensure the survival of the enterprise in an open, competitive world, be discounted (Belchamber 1994). This altruism is bolstered, however, by the fact that flat dollar safety-net adjustments barely keep pace with inflation for the lowest paid workers (\$8.00 amounts to 2.4 per cent at the lowest Federal award rates of pay, and is 1.7 per cent of average minimum award rates). It follows that the *only* way to secure real wage

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6. It is the latter vision which underpins calls for the abolition of minimum wage laws, such as those which resulted in the freezing of the US statutory minimum wage under Presidents Reagan and Bush, from 1 January 1981 to 1 April 1990, and in the denouncing of ILO minimum wage conventions by Thatcher's Britain in 1985. A direct result of that approach may well have been slower growth in productivity – see Gordon in this Volume. The recent applied work by Card and Krueger (1993) and others suggests that a re-examination of the conventional view of minimum wages is under way.

7. In the public sector, the requirements of accountability, transparency and disclosure are also far more rigorous and demanding than in the private sector. This limits the scope for 'over-award' and other discretionary payments to public sector employees. However, workers employed in the public sector are all part of Australian society and must have access to wage adjustments which keep their living standards in touch with movements in the rest of the workforce, where over-award payments are made.

increases in the 1990s is through enterprise bargaining and, pursuant to the Accord, enterprise negotiations must canvas an efficiency/flexibility agenda.<sup>8</sup>

In the next section we present an overview of enterprise bargaining in the manufacturing sector, and look at some examples in other sectors.

### 3. Enterprise Bargaining in Manufacturing

To highlight broad trends in the content of agreements and the wage outcomes negotiated in manufacturing, we have utilised the Commonwealth Department of Industrial Relations (DIR) Wage Agreement Database. Table 1 shows the outcomes for enterprise agreements in metals manufacturing, non-metals manufacturing and total manufacturing. Two periods are considered: October 1991 to March 1993, and the more recent period from April 1993 to December 1994.

Since October 1991 more than 3,500 economy-wide agreements (in the Federal jurisdiction) were recorded on DIR's database, of which half were in the manufacturing industry and covered more than 270,000 employees. The results show the percentage of manufacturing agreements that incorporated measures related to improving the productive performance of the workplace, and the range of wage outcomes achieved.

#### 3.1 Measures to Improve Work Organisation and Use of Capital

A large number of agreements reached through enterprise bargaining in manufacturing include *measures* related to improving the productive performance of the workplace and these are being implemented on the job in workplaces throughout the country. The summary below covers three work organisation measures – quality assurance, teamwork, and continuous improvement/best practice – and the broad measure 'use of capital'. The data indicate whether the relevant matters were included or mentioned in agreements negotiated in manufacturing industry. In brief:

- More than 80 per cent of all manufacturing agreements included some measure related to work organisation.<sup>9</sup>
- Almost half of all manufacturing agreements contained provisions relating to quality assurance and a similar proportion included measures concerning continuous improvement/best practice. In non-metals manufacturing the proportion of agreements with such measures rose, from around 30 per cent to around 40 per cent; in metals it was steady at around one-half in both periods.

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8. See 'Putting Jobs First', Accord VII, paragraphs 5.3-5.7 and Accord VIII, part 4.

9. The measures in DIR's wage agreement database also include those related to changing the 'work environment' such as consultative arrangements or strategies to reduce absenteeism or disputation. 'Work organisation' includes other sub-variables not shown here, such as functional flexibility/reduced demarcation. Closely related to work organisation change is how manufacturing workplaces are attempting to make better use of plant and equipment to improve productive performance. In DIR's database, such measures as introduction of new technology and continuous operation of machinery are included under a broad variable 'use of capital'.

**Table 1: Agreements in Manufacturing**  
(Percentage of agreements that include the features shown)

	All manufacturing		Non-metals		Metals	
	% 1/10/91- 31/3/93	1/4/93- 31/12/94	% 1/10/91- 31/3/93	1/4/93- 31/12/94	% 1/10/91- 31/3/93	1/4/93- 31/12/94
<i>Measures:</i>						
With a work organisation measure	88.76	80.40	83.86	76.55	91.56	84.45
Use of capital	33.88	22.27	30.94	18.59	35.55	26.15
Teamwork	36.81	31.13	18.83	25.80	47.06	36.75
Quality assurance	45.11	45.14	31.84	40.37	52.69	50.18
Cont. improvement/ best practice	42.35	44.37	30.94	39.70	48.85	49.29
New classification	13.36	18.23	19.73	20.94	9.72	15.37
<i>Indicators:</i>						
Output indicators	32.57	33.88	18.39	31.49	40.66	36.40
Cost indicators	34.36	26.48	18.83	22.11	43.22	31.10
Quality indicators	53.58	54.94	32.29	49.75	65.73	60.42
<i>Remuneration:</i>						
Performance pay	2.12	7.31	1.35	7.20	2.56	7.42
Gain sharing	0.49	3.27	0.45	3.85	0.51	2.65
Share acquisition	0.00	0.17	0.00	0.34	0.00	0.00
Bonus	0.81	1.29	0.00	1.68	1.28	0.88
<i>Wage increases per agreement (annualised):</i>						
A – to 2%	3.29	5.03	7.55	6.67	1.40	3.56
B – from 2% to 4%	10.08	31.58	13.84	32.59	8.40	30.67
C – from 4% to 6%	82.56	53.45	72.96	50.37	86.83	56.22
D – GT 6%	4.07	9.94	5.66	10.37	3.36	9.56
<i>Wage increases per employee (annualised):</i>						
A – to 2%	12.70	3.77	25.24	8.31	8.42	1.35
B – from 2% to 4%	11.51	30.79	7.03	32.94	13.04	29.64
C – from 4% to 6%	73.50	53.60	65.04	52.16	76.39	54.37
D – GT 6%	2.29	11.84	2.69	6.59	2.15	14.64

- More than 30 per cent of agreements included measures related to teamwork, and in addition, the proportion of agreements including measures to improve the use of capital ranged from 34 per cent (in the earlier period) to 22 per cent (in the later period).

### 3.2 Performance Indicators and Gain Sharing/Performance Pay

A variety of *indicators* have been included in agreements reached through enterprise bargaining in manufacturing:<sup>10</sup>

- More than half of agreements in manufacturing during both time periods contained quality indicators related to such matters as customer satisfaction/complaints, delivery, scrap and rework, external standards and other measures. Metals manufacturing agreements were twice as likely as non-metals manufacturing to have quality indicators in their agreements in the earlier period but the gap has since closed considerably.
- Around one-third of agreements in manufacturing during both time periods contained output indicators related to such matters as units produced per shift, cycle times and a range of other measures. The proportion is higher in metals, especially in the earlier period.
- The proportion of agreements containing cost indicators fell from one-third to one-quarter. These indicators include downtime, operating costs, and direct unit labour costs amongst others.

The situation changes quite markedly when it comes to performance pay, gain sharing, share acquisition and bonus payments. In the earlier period only 2.1 per cent of all manufacturing agreements had performance pay arrangements. No agreement had share acquisition arrangements, while less than 1 per cent had gain sharing or bonus arrangements. In the later period, just over 7 per cent included some form of performance pay linked to individuals, teams or other arrangements. Less than 4 per cent of agreements had gain-sharing arrangements related to all plant employees, while share acquisition and bonus arrangements were included in less than 2 per cent of all agreements in manufacturing.

## 4. Trends, Prospects and Key Issues

We discussed these results with officials of the Australian Manufacturing Workers Union (AMWU).<sup>11</sup> With respect to both the issues addressed and wage outcomes generated, the results are consistent with the Union's experience and objectives. Most estimates of hourly labour productivity in manufacturing over the 1989/90 to 1994/95

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10. The indicators included in DIR's agreement database relate to output, financial performance, quality, cost and human resources/labour. Some of these are classified (where possible) by DIR's agreement analysts as developed, not yet developed or unclear. The summary in the tables covers cost, quality, and output indicators, but only in the broad sense of whether they were included/mentioned in manufacturing agreements.

11. The AMWU is Australia's largest manufacturing union and has been involved in many of the agreements reached.

period show trend annual increases around 4 per cent. Further, there are improvements in productive performance across a wide range of plants and significant improvements in a smaller group. From the late 1980s through the mid 1990s real wage increases have been achieved for manufacturing workers. This contrasts to the real wage reductions of the 1984/85 to 1989/90 period, when unions gave and honoured ‘no extra claims’ commitments in a high inflation, centralised wages system.

In our judgment the wage increases in manufacturing are sustainable due to the improvements in productive performance that have been achieved. This is consistent with inflation outcomes over the same period. Three significant factors are required to maintain these trends.

First, it will be imperative to increase the number of plants achieving significant improvements in productive performance. A critical issue here is the quality and capacity of Australian management. While a small number (perhaps 10 per cent of plants) have or are approaching world-class management, there is a real concern about the capacity of management to meet the challenge in moving average-performing plants towards best practice and low-performing plants to a higher standard.

Second, success in restraining both underlying and headline inflation will be crucial. Officials recognised that it was a lot easier to negotiate real wage increases and promote improved productive performance in a low-inflation environment.

Third, new investment in plant and equipment must be sustained at high levels for the rest of the decade. This will challenge both the external accounts, and monetary policy.

Perhaps the strongest view expressed was the acknowledgment that the reduction of real wages in the 1980s, the tariff cuts of 1988 and, since 1991, the realities of international competition and unacceptably high unemployment, had required the Union to focus on more comprehensive and innovative strategies for improving productive performance at the enterprise level.

There is a strongly-held view in the AMWU (and the ACTU) that traditional measures of capital and labour productivity are at best partial indicators of the progress being made in generating wealth.<sup>12</sup> The concept of ‘productive performance’ adopted by the Union from studies undertaken by the Massachusetts Institute of Technology is the dominant theme one finds in many of the Union’s publications provided to members to assist them in collective bargaining. While noting traditional measures of labour and capital productivity, the AMWU emphasises that:

‘productive performance is a broader measure of economic vitality. The productive performance of a firm or industry is composed of it’s productivity and of various other factors that tend to be ignored in most economic statistics such as quality, timeliness of service, flexibility, speed of innovation and command of strategic technology’ (AMWU 1994).

It is against this background<sup>13</sup> that Union officials and shop stewards involved in plant level negotiations have encouraged the development and implementation of productivity

12. Measures of ‘capital’ productivity may have some utility in partial analysis within sectors, but for macroeconomic purposes they tell us little. Labour productivity measures are of little use in partial analysis, but have some meaning as economy-wide indicators of scope for real wage increases for given shares of national income.

13. This conception is central to the AMWU’s approach to enterprise bargaining; see the joint ACTU/MTFU submission to the September 1991 National Wage Case (Exhibit ACTU 1, D.165/91).

measurement to: create an awareness of productive performance within an organisation by focusing on existing activities; to establish a profile of existing performance from which to plan for future improvements; to provide ongoing mechanisms for a continuation of the productivity improvement process; and to provide ongoing mechanisms for the monitoring, analysis and evaluation of changes introduced.

The very low level of agreements incorporating gain sharing, performance pay, bonus or share acquisition schemes was also consistent with the AMWU experience.<sup>14</sup> However, it was acknowledged that some forms of alternative payment systems were being introduced in Australia and overseas to complement more important changes.<sup>15</sup> To this extent, the AMWU's preference is to develop a range of indicators to measure improvements in productive performance, have them taken into account by the plant's consultative committee, and use them where they assist the plant in improving productive performance. Any benefits to be introduced through gain sharing are usually additional to the agreed increases in the shop rate of pay and distributed where possible on a plant-wide basis.<sup>16</sup> While employee share-ownership schemes were not prominent in manufacturing, it was noted that where they did exist they were more likely to be dealt with outside the formal enterprise bargaining agreements.

The AMWU considers that agreements reached to date in manufacturing have put into place the basic infrastructure of consultative committees and a training agenda. There is emerging an alliance of sorts around what might be termed the concept of the 'high performance enterprise'. Both unions and employers have moved some considerable way towards agreed approaches to improvements in productive performance.

However, there remain a number of challenging, threshold matters to be addressed in future negotiations. One is to enhance the capabilities of management, particularly those in front-line positions who are often threatened by the devolution of decision making to work teams and by other aspects of workplace change. Another is improving the long-term strategic focus of senior management, particularly in those manufacturing plants that had given little attention to export market and product development. Too many issues still get put aside under the justification of managerial prerogative. Critical amongst these is new investment. For its own part, the AMWU accepts the need to further develop the training and skills of shop stewards and officials to enable them to deal with more demanding negotiations, construction of appropriate performance indicators and the all important implementation of change.

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14. During the earlier period, many employers had 'tried to introduce such systems as a substitute for all or part of any wage increase'; many of the schemes were 'imported from overseas without adapting them to the local circumstances of the Australian plant'; many were 'overly complex' and some simply represented 'new fads to introduce old-fashioned short-term cost cutting'. Workers at an enterprise level had frequently rejected the proposition that they carry the risk for management ineptitude/incompetence, especially when responsibility for key decisions affecting performance was retained by management.
  15. These include the removal of Taylorism, changed job design, national skills standards, introduction of teams, competency training, decision making by the workforce, changed work organisation, and restructured career paths.
  16. Several cases were mentioned where such systems had not worked for a variety of reasons. For example in some cases they were overly reliant on the performance of one part of the plant's operation. When this wasn't working properly the whole plant would suffer and disputes over who was to blame, rather than how to improve it tended to occur.

## 5. Enterprise Agreement Provisions: Diversity and Scope

Since late 1990, unions have pursued enterprise bargaining in the Accord framework, and have always addressed a broad agenda of issues. The quality and scope of recent agreements varies across sectors, industries and workplaces. During the first quarter of 1995, 655 agreements were certified, 400 in the non-metals private sector, 73 metals agreements and 182 public-sector agreements. Of the public-sector agreements, over 120 arose from municipal council restructuring or hospital amalgamations and did not address wages or productivity issues. In the non-metals private sector, 150 arose from manufacturing, 31 from construction, 68 from transport, the remainder spread across finance, mining, wholesale/retail trade, oil and gas, plumbing, and electrical contracting.<sup>17</sup>

The samples set out in the Appendix are drawn from that pool. The tables list the performance indicators and productivity measures included in agreements in the private and public sectors. Other issues addressed include work systems, productivity/service delivery processes, employment practices, consultation, long-term (strategic) planning, and short-term cost-cutting measures. Table A4 lists some target variables under these headings.

## 6. Summary and Conclusion

Microeconomic reform in the Australian labour market over the past decade has been extensive in its scope, and is continuing. It is a system-wide program of regulatory review and reform, not simply *deregulation*. The wages system has been harnessed to promote and support implementation of changes enabled by the reform program, in workplaces across the country.

Today the process of wage bargaining typically involves negotiation of workplace change as well. The formal requirements of award restructuring have filtered through into agendas, attitudes and discussion at workplace level. Change has been both structural (formal) and cultural. Though not discussed in this brief paper, overhaul of vocational education and training arrangements and labour-market programs has buttressed this change in the award system. In our judgment, the consequences of this embrace of change and reform will continue to percolate through to the macroeconomic aggregates over the remainder of the decade. Prospects are for low inflation and high real growth in the years ahead.

Microeconomic reform in the labour market is one amongst several issues at the heart of the Accord. Another is the distribution of national income. Both micro reform and distributional settings impact on inflation and growth. Accord Mark VIII, agreed on 22 June, continues this broad Accord agenda, potentially through to March 1999 (ACTU 1995). Entitled 'Sustaining Growth, Low Inflation and Fairness', it explicitly promotes the cause of improved productive performance in Australian enterprise, accepting that wage increases not so related must be limited. Parameters are established for safety-net wage rises, for the next four years. Public sector agreements will be related to productivity and other considerations.

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17. These data are drawn from the ACTU Labour Information Network enterprise agreement database.

There is strengthened agreement regarding the goal of underlying inflation averaging 2 to 3 per cent over the course of the business cycle, and clear acceptance of the need for policy adjustment if it is in jeopardy. (In this respect, Accord VIII reflects in policy a presumed connection between low inflation and high real growth, which is consistent with the findings of Andersen and Gruen in this Volume.) Nonetheless, the proximate goal of 600,000 net additional jobs by March 1999 is fundamental, and puts a 5 per cent unemployment rate by the turn of the century within reach. Having regard to recent and prospective enterprise bargaining outcomes, Safety Net Adjustments, special cases, and employment growth, our sums say that aggregate wages growth under Accord VIII will prove consistent with the inflation goal and, indeed, underpin its achievement. If achieved, this would stand Australia in good stead for continued high rates of low-inflationary real growth into the next century.

## Appendix: Enterprise Agreements

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**Table A1: Commonly-Used Performance Indicators**

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Productivity	<ul style="list-style-type: none"> <li>• Volume of product available divided by number of employees</li> <li>• \$ value of sales divided by labour hours</li> </ul>
Quality	<ul style="list-style-type: none"> <li>• Percentage of rejects</li> <li>• Percentage of reworks</li> <li>• Percentage of waste</li> </ul>
Reliability	<ul style="list-style-type: none"> <li>• Number of service calls over time</li> <li>• Number of warranties returned over time</li> </ul>
Cost effectiveness	<ul style="list-style-type: none"> <li>• Mix of product to waste</li> <li>• Maintenance costs per labour hour of production</li> <li>• Inventory damaged in store</li> </ul>
Throughput	<ul style="list-style-type: none"> <li>• Change-over time</li> <li>• Waiting time</li> <li>• Down time</li> <li>• Internal delivery time</li> </ul>
Timeliness	<ul style="list-style-type: none"> <li>• Response time to call outs</li> <li>• Turnaround</li> <li>• Delivery time to a customer</li> <li>• Repair turnaround time</li> </ul>
Safety	<ul style="list-style-type: none"> <li>• Injury rate</li> <li>• Number of safety breaches per month</li> </ul>
Environment	<ul style="list-style-type: none"> <li>• Spills/emissions</li> <li>• Environment audits</li> </ul>

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**Table A2: Key Performance Indicators in Three Agreements**

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Smorgan Fibre Containers Agreement	The Agreement targets improvement in product quality, customer service levels, response time; and cycle time; as well as reduction in waste. It also targets improvement in work organisation and job design, and improvement in labour flexibility.
State Transit Authority of NSW (Balmain Ferry Maintenance Centre) Agreement	The key performance indicators include absenteeism, level of lost time through injuries, industrial disputation, average docking costs; and level of commercial activity. A monthly consultative committee is established with access to all financial information and monitors results.
James Hardy Pipelines Wangara Certified Agreement	Includes productivity standards such as per cent of rejects, tonnage of re-work, product weight variance to be less than 1 per cent, customer returns below 2 per cent; and machine down-time MRP.

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Note: None of these agreements uses the performance indicators in isolation. For example the James Hardy Pipelines Wangara Certified Agreement includes a career development plan which will see a new 4 level skills matrix introduced, and aims to improve channels of communication, facilitate team work and decision making closer to the job.

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**Table A3: Use of Productivity Measures in Three Public Sector Agreements**

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Federal Court of Australia Agreement 1994/95	Goals include best quality service to the community, superior case flow management, a challenging and rewarding work environment, innovation in court administration, and excellence in administrative and legal decision making.
Australian Capital Territory (Enterprise Bargaining – Teachers) Agreement 1994	Provides for review of organisational structures to better utilise resources and reduce duplication; and to achieve quality management – AS 3904-2-1992; environmental efficiency through energy audits; and compatibility of technology across the service. It also commits to review arrangements for motor vehicles; provides for consideration of grouping penalty payments; and to review leave for workers with family responsibilities.
Department of Admin. Services Interiors Australia Agency Productivity Agreement 1994	Aims for continuous improvement, with introduction of quality assurance systems and use of project plans minimising rework. Specific targets include documentation standards and quality; invoicing processes; ‘finishing the last 5 per cent’; and environmental best practice. The Agreement establishes feedback mechanisms (experiential learning). Three performance indicators are: Utilisation rate = billable time/total time Profitability = net margin/total sales Debtor days = value of outstanding invoices x 365/total sales Customer satisfaction will be monitored by customer survey.

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**Table A4: Matters Addressed in Enterprise Agreements**

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Work systems	Introduction of teams; employee involvement groups; job rotation; involvement of production workers in quality processes; and demarcation.
Production/service delivery processes	Implementing quality management; service standards case management; introduction of information technology; manufacturing resource planning; ‘Just in Time’ inventory process; ‘finishing the last 5 per cent’.
Employment practices	Investing in skills development; removal of status barriers between management and workers; and recruitment practices.
Consultation and long-term planning	Employee involvement in strategic direction; union involvement; corporate goals and philosophy.
Short-term measures	Using casual, part-time and fixed-term contracts of employment (use of non-permanent staff now identified in a small number of agreements as a barrier to long-term productive reform); changes to working hours; averaging penalties; absenteeism; annualised salaries.

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